

## Message Text

CONFIDENTIAL

PAGE 01 BANGKO 26610 221322Z

41

ACTION EA-09

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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SIL-01 L-03 H-02 PA-01 PRS-01 IGA-02 /086 W

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FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 5922

C O N F I D E N T I A L BANGKOK 26610

E.O. 11652: GDS

TAGS: EFIN, TH

SUBJECT: THAILAND'S PLANS FOR INTERNATIONAL FINANCING

REF: A) BANGKOK 17468 B) BANGKOK 25379

SUMMARY: THE MINISTRY OF FINANCE IS CONTINUING NEGOTIATIONS WITH AMERICAN AND EUROPEAN BANKERS ON AN INTERNATIONAL COMMERCIAL LOAN WHICH IS LIKELY TO BE CONCLUDED IN EARLY 1976. A SUCCESSFUL PLACEMENT WOULD BE A MAJOR PLUS FOR THAILAND BOTH ECONOMICALLY AND POLITICALLY. END SUMMARY.

1. IN AUGUST (REFTEL A) THE EMBASSY FIRST REPORTED RTG INTENTIONS TO GO INTO THE INTERNATIONAL CAPITAL MARKET FOR A LOAN, THE FIRST TIME THAILAND HAD DONE SO IN THE POST-WORLD WAR II PERIOD. AT THE TIME FINANCE MINISTRY OFFICIALS WERE TALKING OF AN ISSUE OF BETWEEN 200 AND 500 HILLION DOLLARS. IN A CONVERSATION WITH THE AMBASSADOR ON DECEMBER 1 (REFTEL B), THE UNDERSECRETARY OF STATE FOR FINANCE, AMNUAI WIRAWAN, MENTIONED A LOAN OF 50 MILLION DOLLARS AS BEING MORE PROBABLE. THE FINAL FIGURE HAS NOT YET BEEN SET, SINCE THERE ARE DIFFERENCES OF OPINION, BOTH IN THE GOVERNMENT AND AMONG BANKERS, AS TO THE MOST APPROPRIATE AMOUNT WHICH WILL BE PROMPTLY SUBSCRIBED TO AT A FAVORABLE RATE.

CONFIDENTIAL

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PAGE 02 BANGKO 26610 221322Z

2. SINCE THIS IS THAILAND'S FIRST VENTURE INTO THE CAPITAL MARKET IN RECENT TIMES, IT IS ESSENTIAL THAT THE ISSUE GO OFF RIGHT---A FAVORABLE INTEREST RATE, A PROMPT AND COMPLETE SUBSCRIPTION AND A BLUE-RIBBON GROUP OF FINANCIAL INSTITUTIONS BACKING THE LOAN. THIS ISSUE WILL SET THE PATTERN FOR FUTURE THAI DEBT ISSUES AND IF IT WERE TO PROVE DIFFICULT TO PLACE AT A FAVORABLE INTEREST RATE, IT WOULD ADVERSELY AFFECT ALL THAILAND'S LATER BORROWINGS. THIS IS ONE REASON FOR THE CAUTIOUS APPROACH BEING TAKEN IN DETERMINING THE AMOUNT OF THE LOAN AND SELECTING SYNDICATE LEADER TO MANAGE THE ISSUE.

3. IN PRELIMINARY DISCUSSIONS, THE THAI TOOK AN UNREALISTIC VIEW OF THE TERMS WHICH THEY COULD GET. THEY SOUGHT A SEVEN OR EVEN TEN YEAR ISSUE OF NOTES WITH A GRACE PERIOD OF TWO YEARS BEFORE INTEREST OR PRINCIPAL WOULD BE PAID. IN THE COURSE OF THE NEGOTIATIONS, MINFIN OFFICIALS RECOGNIZED THEIR LACK OF EXPERTISE IN INTERNATIONAL FINANCE AND HAVE SOUGHT OUTSIDE ADVICE IN PREPARING THE LOAN. THE EMBASSY UNDERSTANDS FROM SOME SOURCES THAT A PRIVATE AMERICAN FINANCIAL EXPERT IS ADVISING THE THAI. INFORMED SOURCES BELIEVE THAT THE ISSUE WILL BE IN THE FORM OF FIVE-YEAR NOTES AT A RATE OF  $1\frac{3}{4}$  TO 2 PERCENT ABOVE THE PRIME RATE. A NUMBER OF BANKS HAVE SUBMITTED PROPOSALS TO THE RTG, BUT WE ARE NOT SURE AS TO HOW CLOSE THE GOVERNMENT IS TO MAKING A DECISION. THE LOAN WILL BE TO THE RTG ITSELF, BUT WILL PROBABLY BE EARMARKED FOR USE BY SPECIFIC STATE ENTERPRISES, SUCH AS THE ELECTRICITY, RAILROAD OR TELEPHONE ORGANIZATIONS.

4. ONE REASON FOR POSSIBLE DELAY IS OPPOSITION BY SOME MORE CONSERVATIVE GOVERNMENT OFFICIALS TO THE 50-MILLION-DOLLAR-PLUS SIZE OF THE LOAN. SOME, INCLUDING THE GOVERNOR OF THE CENTRAL BANK, FAVOR A SMALLER PRIVATE PLACEMENT WHICH WOULD BE MORE READILY ARRANGED.

5. THERE ARE STRONG ECONOMIC REASONS FOR GOING TO THE INTERNATIONAL CAPITAL MARKET NOW. THAILAND IS IN A SOLID FINANCIAL POSITION, WITH STRONG RESERVES AND LOW DEBT.  
CONFIDENTIAL

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PAGE 03 BANGKO 26610 221322Z

HOWEVER, SUBSTANTIAL BALANCE OF PAYMENTS DEFICITS THIS YEAR AND NEXT, LARGELY DUE TO UNFAVORABLE TRENDS IN THAILAND'S TERMS OF TRADE, WILL DRAW DOWN FOREIGN EXCHANGE RESERVES. ESTABLISHING ITSELF IN THE INTERNATIONAL FINANCIAL MARKET NOW WILL ENABLE THAILAND TO MORE READILY BORROW WHEN NEEDS ARE GREATER IN 1977 AND 1978.

6. ALTHOUGH THERE ARE SOLID FINANCIAL REASONS FOR A LOAN TO ESTABLISH A CREDIT RATING FOR CONTINUING LINES OF CREDIT, THE LOAN WILL PROBABLY BE PLACED PRIMARILY FOR POLITICAL REASONS. THE GOVERNMENT, PARTICULARLY MINISTER OF FINANCE BUNCHU ROTCHANASATHIAN, WISHES TO GIVE A BOOST TO THE THAI PEOPLE, ANNOUNCE TO ADVERSARIES IN SOUTHEAST ASIA THAT THAILAND IS A STRONG NATION WITH MANY FRIENDS, AND PRESENT A SHOWCASE GESTURE TO FOREIGN INVESTORS WHICH WILL HOPEFULLY REVIVE FLAGGING INVESTOR INTEREST. THIS LOAN STRATEGY APPEARS SENSIBLE AND HIGHLY DESIRABLE FOR THE RTG AT THIS TIME.

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